

**COUNTY OF TEHAMA,  
CALIFORNIA**



**MANAGEMENT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2008**

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**COUNTY OF TEHAMA, CALIFORNIA**  
**MANAGEMENT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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To the Board of Supervisors  
County of Tehama  
Red Bluff, California

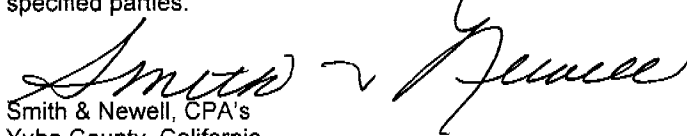
We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Tehama, Red Bluff, California (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the County about matters that are important to the County's oversight role. We previously reported on internal control and compliance in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated March 18, 2009.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The following report summarized all our comments and suggestions including immaterial noncompliance, control deficiencies that are not considered significant deficiencies or material weaknesses and other matters involving internal control.

We will review the status of these comments during our next audit engagement. We have already discussed these findings and recommendations with the County management, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of management, others within the organization, the Board of Supervisors and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's  
Yuba County, California  
March 18, 2009

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
REQUIRED COMMUNICATION  
FOR THE YEAR ENDED JUNE 30, 2008**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Tehama, California, for the year ended June 30, 2008, and have issued our report thereon dated March 18, 2009. Professional standards require that we provide you with the following information related to our audit.

**1. Our Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered County of Tehama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether County of Tehama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about County of Tehama's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on County of Tehama's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on County of Tehama's compliance with those requirements.

**2. Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

**3. Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements are depreciation of capital assets and estimated cost of infrastructure assets.

Management's estimate of depreciation is based on estimated or actual historical cost and the useful lives of such assets. We evaluated the key factors and assumptions used to develop depreciation estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
REQUIRED COMMUNICATION  
FOR THE YEAR ENDED JUNE 30, 2008**

**4. Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**5. Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**6. Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**7. Management Representations**

We have requested certain representations from management that are included in the management representation letter.

**8. Management Consultations with Other Independent Auditors**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**9. Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the County and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**08-FS-01 FUND BALANCE**

**Condition**

We noted that the beginning fund balance per the County general ledger did not agree with the prior year audited financial statements.

**Cause**

The County did not record certain year end adjustments, such as accrued interest receivable and claims liability.

**Criteria**

The audited financial statements should be an accurate reflection of amounts actually reflected on the County general ledger.

**Effect of Condition**

The County general ledger did not agree with the audited financial statements.

**Recommendation**

We recommend that the general ledger and the audited financial statements accurately reflect all year end adjustments.

**Corrective Action Plan**

Historically, interest has been apportioned quarterly, with the revenue recorded in the following quarter. The interest on the last quarter of the year was recorded as revenue in the 1<sup>st</sup> quarter of the new fiscal year.

It is our intention, beginning with the 2008/09 fiscal year, to record the 4<sup>th</sup> quarter revenue in the quarter which it was earned, thereby eliminating the need for year end adjustments to interest.

The County has also established a balance sheet account to record the insurance claims liability.

**08-FS-02 PROPERTY TAX REVENUE ALLOCATION**

**Condition**

At the time of our fieldwork we noted that there was an unresolved difference of approximately \$113,000 between the balance in the tax resources fund and the unpaid balance on the secured, abstract secured, and supplemental tax rolls at June 30, 2008.

**Cause**

The County has not reconciled the tax resource fund to the tax rolls.

**Criteria**

Good internal control over the tax apportionment process requires that a complete reconciliation be performed.

**Effect of Condition**

The risk of errors in the apportionment of property tax is increased when the tax resources fund is not reconciled to the tax rolls.

**Recommendation**

We recommend that the tax resources fund be reconciled to the unpaid tax balance on the property tax rolls.



**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**08-FS-02    PROPERTY TAX REVENUE ALLOCATION (CONTINUED)**

**Corrective Action Plan**

The property tax manager has kept a record of changes to the Secured abstract roll and uses that information to balance the roll to the Tax Resource Fund.

The County intends to reconcile the Tax Resource Fund by making an adjustment for each year that had corrections to the Secured abstract tax roll.

**08-FS-03    CURRENT PORTION OF COMPENSATED ABSENCES**

**Condition**

During our audit we noted that the amount recorded as the current portion of compensated absences was not a true representation of the amount of vacation, sick leave, and paid time off expected to be used in the next fiscal year.

**Cause**

The County did not correctly estimate the current portion of compensated absences for financial statement presentation purposes.

**Criteria**

Paragraphs 31 and 119c of Statement 34 require governments to report and disclose the portion of compensated absences that is "due within one year of the statement date".

**Effect of Condition**

The estimated amount for the current portion of compensated absences was not an accurate estimate of the amount that was due within one year of the statement date.

**Recommendation**

We recommend that the County review historical annual usage of compensated absences and develop a methodology to estimate the current portion of compensated absences.

**Corrective Action Plan**

In prior years the County has estimated the current portion of compensated absences as 50% of accumulated vacation and sick leave buyout due upon separation.

In the future, the amount reported as the current portion of compensated absences, for financial statement purposes, will be an estimate of the amount of vacation, sick leave, and paid time off expected to be used in the fiscal year.

**08-FS-04    ACCOUNTS RECEIVABLE/DEFERRED REVENUE**

**Condition**

We noted that accounts receivable in governmental funds had been accrued based on estimates which did not meet the available criteria for modified accrual.

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS - FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**08-FS-04    ACCOUNTS RECEIVABLE/DEFERRED REVENUE (CONTINUED)**

**Cause**

Accounts receivable had been accrued based on estimated amounts rather than the actual amounts received within the modified accrual accounting period.

**Criteria**

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting revenues are recorded when measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The County considers revenues reported in the governmental funds to be available if they are collected within forty five days after the end of the current fiscal year. Revenues collected after this period may be accrued but they should be offset by the liability deferred revenue, to indicate that they have not been recognized.

**Effect of Condition**

Revenues and accounts receivable may be overstated.

**Recommendation**

We recommend that accounts receivable be accrued in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

**Corrective Action Plan**

The County departments submit year end accrual statements to the auditor. The Auditor closely monitors those submittals, and subsequent corresponding revenues, to insure that the revenue is recognized in the appropriate period. However, the amount of revenue received, may not match the amount originally submitted.

In the future, it is the intention of the County Auditor to record as revenue in the current year only those amounts actually received during the accrual period, thus reducing the opportunity for overstating revenues.

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
CURRENT YEAR COMMENTS - SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2008**

08-SA-01

<b>Name:</b>	<b>CHILD SUPPORT ENFORCEMENT</b>
<b>CFDA #:</b>	<b>93.563</b>
<b>Federal Grantor:</b>	<b>U.S. Department of Health and Human Services</b>
<b>Pass Through Entity:</b>	<b>State Department of Child Support Services</b>
<b>Award No.:</b>	<b>N/A</b>
<b>Year:</b>	<b>June 30, 2008</b>

**Condition**

During our testing of time certificates under A-97 provisions for the Child Support program, we noted that for one of the employees tested, the time certification was signed by both the employee and supervisor but the percentage of time that the employee worked for the Child Support program was not completed. Therefore, these statements are of little use in complying with the requirements discussed below.

**Perspective**

It appears that one employee neglected to insert the applicable percent in the area which shows the percent of time the Child support employee worked on the Child Support Enforcement program.

**Criteria**

Direct payroll charges to federal grants for employee time spent on grant functions must be supported with documentation as required by OMB Circular A-87, which provides: "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." OMB Circular A-87, Attachment B, Section 11(h).

**Effect of Condition**

The completion of time certifications enables the department to establish that its full time employees do in fact work exclusively on this program in accordance with A-87 standards. Without the periodic time certifications, employee assignments away from federal grant functions might be overlooked.

**Questioned Cost**

We did not question any costs. Child support employees in this County work 100% on the Child Support Enforcement program.

**Recommendation**

When preparing the semi-annual (or quarterly, in the case of the County of Tehama) time certifications, we recommend that supervisory personnel review the time certifications signed by the employees and make sure that the certification is appropriately completed, signed by the employee and approved by the supervisor. We further recommend that the County remind the Child Support employees of the importance of completing the percentage of time worked on the program in their time certifications.

**Corrective Action Plan**

We will remind the supervisory personnel to review the time certifications signed by the employees and make sure that the certification is appropriately completed. We will also advise the employees of the importance of reporting the percentage of time worked on the program when completing their time certifications and attach an instructional cover sheet on top of the certification when it is handed out.

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
STATUS OF PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-FS-01	<p><b>CONTROLS OVER FINANCIAL REPORTING (SAS 112)</b> <b>Year: 2006-2007</b> <b>Reporting Requirement: Significant Deficiency</b></p> <p><b>Recommendation</b></p> <p>The County may consider the following possible actions:</p> <ul style="list-style-type: none"><li>• Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.</li><li>• Hire an external Certified Public Accountant to confirm that the financial statements and related disclosures are in accordance with GAAP.</li><li>• Take no action. The County may find that the costs outweigh the benefits to adhere to this standard. No action will continue to result in a significant deficiency in the County's internal controls over the preparation of the financial statements.</li></ul> <p><b>Status</b></p> <p>In Progress</p> <p><b>Corrective Action Plan</b></p> <p>The County continues to take necessary actions to comply with SAS 112 standards.</p> <p>The County Auditor's staff currently compiles the information needed to prepare the financial statements including the Management's Discussion and Analysis. A disclosure checklist was also completed by the Auditor's staff to provide a better understanding of the financial statements and to assist in identifying that all necessary disclosures have been made. While it may take a few years to be fully compliant, we continue to provide the necessary resources and training required to prepare the financial statements in accordance with GAAP.</p>

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
STATUS OF PRIOR YEAR FINDINGS - SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>	
07-SA-01	<b>Name:</b>	<b>TEMPORARY ASSISTANCE FOR NEEDY FAMILIES</b>
	<b>CFDA #:</b>	<b>93.558</b>
	<b>Federal Grantor:</b>	<b>U.S. Department of Health and Human Services</b>
	<b>Pass Through Entity:</b>	<b>State Department of Social Services</b>
	<b>Award No.:</b>	<b>N/A</b>
	<b>Year:</b>	<b>2006-2007</b>
	<b>Recommendation</b>	
	We recommend that the department review the facts regarding these exceptions and determine whether (1) each is an isolated instance of non-compliance; or (2) procedures might be implemented to prevent recurrence of such errors. If further internal controls can be implemented, we recommend that they be implemented.	
	<b>Status</b>	
	Implemented	
07-SA-02	<b>Name:</b>	<b>MEDICAL ASSISTANCE PROGRAM</b>
	<b>CFDA #:</b>	<b>93.778</b>
	<b>Federal Grantor:</b>	<b>U.S. Department of Health and Human Services</b>
	<b>Pass Through Entity:</b>	<b>State Department of Health Services</b>
	<b>Award No.:</b>	<b>N/A</b>
	<b>Year:</b>	<b>2006-2007</b>
	<b>Recommendation</b>	
	We recommend that the department review the facts regarding these exceptions and determine whether (1) each is an isolated instance of noncompliances; or (2) procedures might be implemented to prevent recurrence of these errors. If further internal controls can be implemented, we recommend that they be implemented.	
	<b>Status</b>	
	Implemented	
07-SA-03	<b>Name:</b>	<b>CHILD SUPPORT ENFORCEMENT</b>
	<b>CFDA #:</b>	<b>95.563</b>
	<b>Federal Grantor:</b>	<b>U.S. Department of Health and Human Services</b>
	<b>Pass Through Entity:</b>	<b>State Department of Child Support Services</b>
	<b>Award No.:</b>	<b>N/A</b>
	<b>Year:</b>	<b>2006-2007</b>
	<b>Recommendation</b>	
	When preparing the semi-annual time certifications, we recommend that supervisory personnel review the time certifications signed by the employee and make sure that the certification is appropriately completed, signed by the employee, and approved by the supervisor. We further recommend that the County remind the Child Support employees of the importance of completing the percentage of time worked on the program in their time certifications.	
	<b>Status</b>	
	Partially Implemented. During testing this year we noted one of the employees' time certifications did not have the percentage of time that the employee worked on the Child Support program completed.	

**COUNTY OF TEHAMA, CALIFORNIA  
MANAGEMENT REPORT  
STATUS OF PRIOR YEAR FINDINGS - SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Finding</u>
07-SA-04	<b>Name:</b> CHILD SUPPORT ENFORCEMENT <b>CFDA #:</b> 95.563 <b>Federal Grantor:</b> U.S. Department of Health and Human Services <b>Pass Through Entity:</b> State Department of Child Support Services <b>Award No.:</b> N/A <b>Year:</b> 2006-2007

**Recommendation**

The Child Support Department currently has policies and procedures in effect to ensure that the status is correctly input into the CASES software. We recommend that eligibility management remind the case workers of the importance of correctly designating the status in those few cases where case status is not automatically set by the software.

**Status**

The County has implemented the CSE System on October 1, 2007. Case Function Status is now automatically populated by the CSE system and the County is no longer responsible for maintaining and updating that status.